



## **Introduction to Budgeting and Municipal Finance for Indiana Law Enforcement Managers**

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# Overview

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- Budgeting Basics
- Fund Structure (or Fund Types)
- Budget Structure (Accounting Structure)
- Budget Process
- Budget Presentations
- Budget Issues and Trends



# Overview

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- Contracts
- Controls and Limits
- Local Officials Roles in Process



# Budgeting Basics

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- Definition of “Budget”
  - A budget is a financial plan that includes both revenues and expenditures for a specified period of time. It’s a legally binding financial plan.
- Purpose of Budgeting
  - A budget allocates financial resources within the government to fund the operating and capital plans. The budget should be a communications device for officials to openly discuss the priorities with the public.



# Budgeting Basics

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- Definition of “Net Assessed Value”
  - The “net” total taxable property value in a jurisdiction. This is the total value of all property less any exempt property minus any deductions such as a homeowners deduction. Assessed value is the “tax base” of a geographic area.
  - Gross assessed value minus deductions equals “net assessed value.”



# Basics of Budgeting

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- Tax Rate – A ratio between the net assessed value and the tax levy. The tax rate multiplied times the assessed value (per \$100) results in the amount of taxes the unit will charge (levy).

$$\text{Levy} = \text{Tax Rate} \times \frac{\text{Net Assessed Value}}{\$100}$$



# Basics of Budgeting

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- Budget Controls
  - State level of control is by fund and total for tax supported funds.
  - Control is at the local level by ordinance or resolution and is established at the fund, department, and major classification.
- Penalties – IC 6-1.1-18-10
  - If the proper officer makes an excessive appropriation they are guilty of malfeasance in office and liable for 125% of the amount.



# Funds

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- A fund is a separate account of revenues and expense
  - Intent is to separate dedicated fees and charges and use only for intended purpose.
- Types of Funds
  - General Fund
    - Includes all operating costs and revenues not required to be included in another fund.
    - This fund is for the general provision of government services and not designated for specific purposes.
    - Funds most activities of the government.





# Funds

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- Special Revenue Funds
  - Used to account for revenues reserved or designated for specific purposes.
- User Fee Funds
  - Accident Report, Gun Permit, Law Enforcement Training
- State (Law Enforcement) Equitable Share
- Federal (Law Enforcement) Equitable Share
- Deferral Fee Fund
- Motor Vehicle Highway
  - Cities and towns with population of 5,000 or less may use 15% for law enforcement; All other cities and towns may use 10%.
- Drug Free Community
- Grants



# Funds

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- Capital Funds

- Primarily used for acquisition or construction of fixed assets or equipment including fleet.
- Construction Fund comes from bond proceeds.
- Cumulative Capital Funds can be used to accumulate cash for future planned expense. Also may be used to purchase equipment, vehicles, land and buildings.

- Debt Service Funds

- Used to make principal and interest payments.
- Usually supported by property tax or income tax.



# Cumulative Funds

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- Established to collect tax and accumulate balances for future capital purchases or projects.
- Purpose of fund is established by the ordinance that creates the fund. For ex: Fleet Replacement
- Units may have multiple cumulative funds.
- Cumulative funds are “rate controlled” but
  - Amount of property tax levy allowed outside of maximum controls is limited.
- Budget, levy, and rate must be adopted with annual budget.



# Public Safety LOIT

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- County wide Local Option Income Tax for Public Safety
- Must have a LOIT for Property Tax Credits or Levy Freeze in order to adopt Public Safety LOIT
- Maximum income tax rate is 0.25%
- Only available for cities, towns, county, and fire departments (including townships) and only for public safety activities. (Includes criminal justice)
- Budgeted as separate fund
- Appropriations must be approved by DLGF



# Budget Structure

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- Budget and accounting is organized in a structure by department, fund, and major classification (object or character).

- Example:

• Agency	Police Dept
• Fund	General
• Major Class	Personal Services
• 0100 Bi-weekly salaries	\$200,000
• 0110 Weekly Salaries	600,000
• 0120 Pension Benefits	100,000
• 0130 Insurance	<u>100,000</u>
Total Personal Services	\$1,000,000



# Budget Structure

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- Budgets are structured to provide legal controls and accountability.
  - Designed so money is used by and for what it was intended.
  - Provide information to the public.
  - Guide and control operations.
  - Provides units with the ability to amend original budget to adjust for changing priorities and emergencies.



# Budget Changes

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- Officials can amend budgets by adopting ordinances or resolutions that transfer appropriations from one classification to another (For example: transfer budget dollars from supplies to capital).
- Very few provisions in Indiana Code allow for the transfer cash from one fund to another.



# Budget Changes

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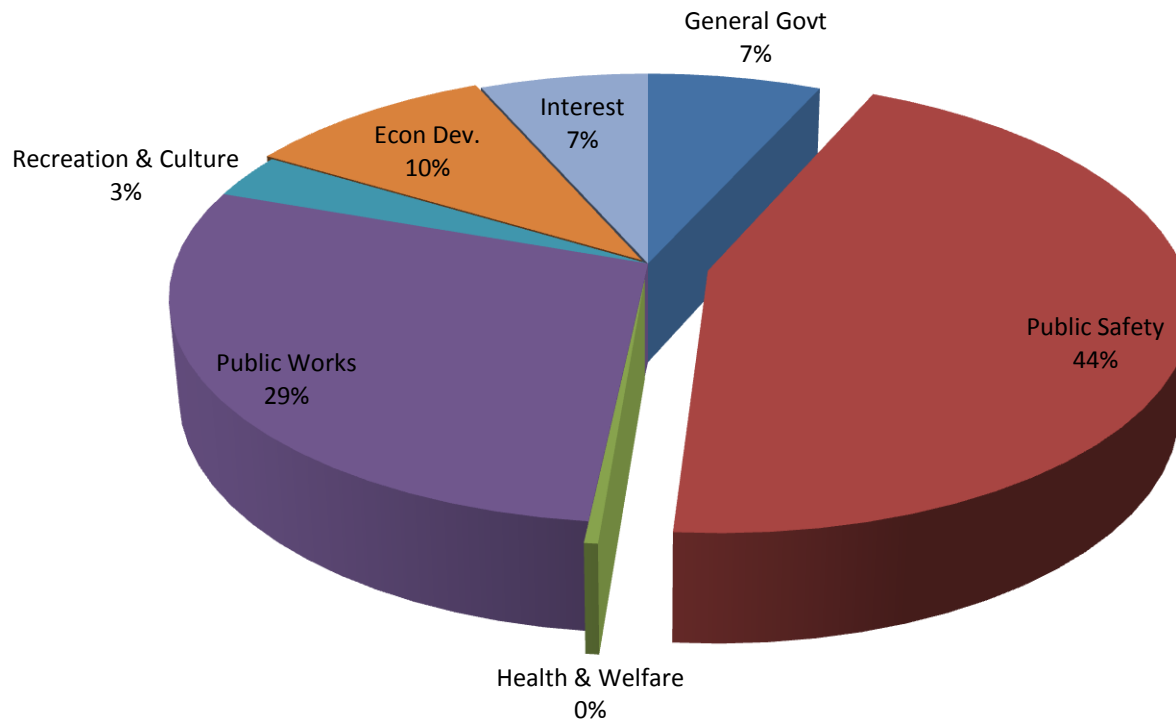
- Budgets can also be amended to appropriate additional resources.
  - Limited to available funding.
  - Additional appropriations from tax supported funds also require DLGF approval.
  - Requires a public notice and hearing.
- Occasionally, budgets need to be reduced to reflect reduced amounts of resources.
  - For instance, a town may only receive 90% of the property tax they anticipated.





# Where The Dollars Go

## Indianapolis 2012 Budget

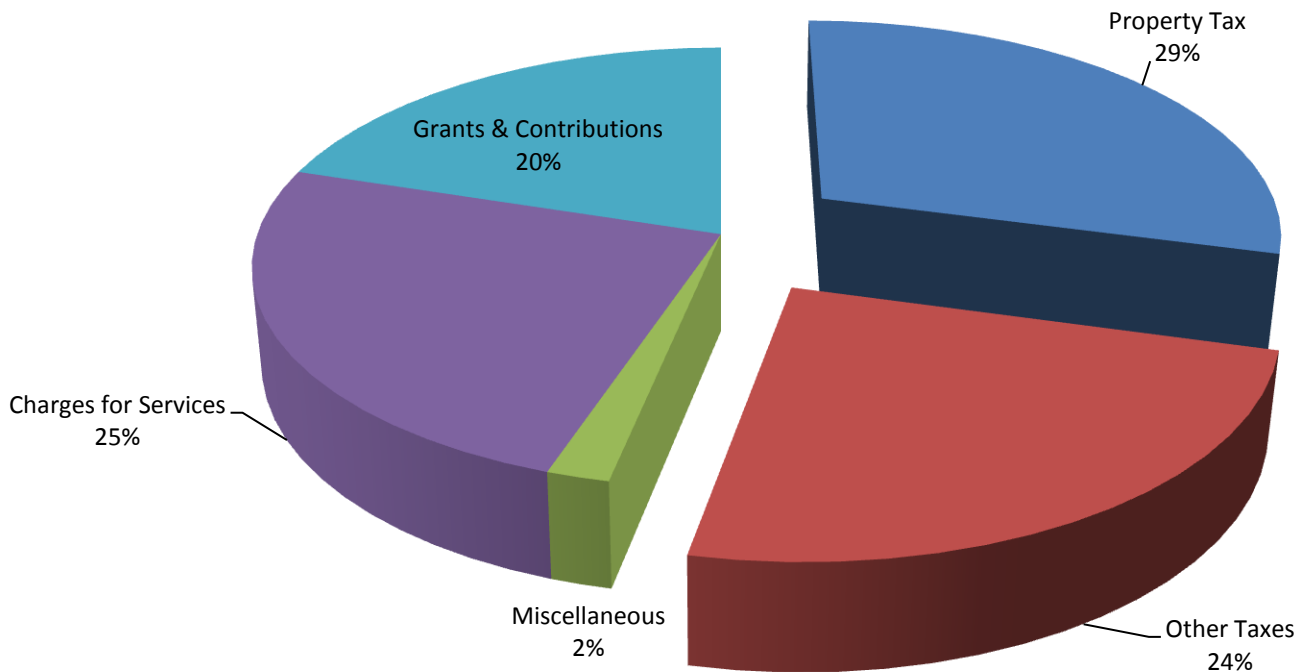




# Where The Dollars Come From

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## 2012 Indianapolis Revenues





# Fiscal Limits

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- Budgets are limited to the amount of available fund balances.  
Fund balance= cash minus obligations
- Property tax levies are “controlled” and can only grow by a 3% to 5% average per year with few exceptions.
- Property tax bills are limited by circuit breaker credits (or tax “caps”) which are 1% for homesteads, 2% for non-homestead residential, and 3% for industrial and commercial – Impact will vary.



# Fiscal Limits

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- Property taxes are controlled, or limited by the state statute.
- Controls are also known as “frozen levy”
- Levy is not frozen, but increases are limited to the maximum amount allowed in the previous year plus a growth quotient – AVGQ (usually 2%-5%).
- There are exceptions to the controls such as debt service payments (bonds) and leases.
- Those exceptions could be substantial and eventually led to circuit breakers or tax caps.



# Circuit Breakers

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**AKA “Property Tax Caps”– Limits on a property owners tax liability**

- **Example:**

• Gross Assessed Value	\$150,000
• Less Homestead Deduction	45,000
• Less Supplemental Homestead (35%)	36,750
• Less Mortgage Deduction	3,000
• Net Assessed Value	\$ 65,250
• Tax Rate (per \$100)	3.5000
• Taxes	\$ 2,284
• Circuit Breaker Calculation (Gross AV times 1%)	\$ 1,500
• Circuit Breaker Credit = (\$2,284 - \$1,500 =)	\$ (784)

*Taxpayer saves \$784 per year due to Circuit Breaker*



# Circuit Breakers

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- Important Points Regarding Circuit Breakers:
  - Circuit Breakers are protections for property taxpayers
  - Overwhelmingly approved by voters
  - Governments that experience Circuit Breaker Credits will have reduced property tax collections
  - Reductions are allocated proportionately to all funds that levy property taxes
  - Tax revenues reduced by Circuit Breaker Credits cannot be recovered by other property taxes
  - Tax increases approved by voter referendum are exempt from Circuit Breaker calculation



# Property Tax Reform

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- Beginning with 2009 budgets, rates and levies, the state assumed the cost of several services that traditionally had been paid by property tax:
  - Family & Children Services (Welfare)
  - School Operating Funds
  - Pre-School Special Education
  - Pre-1977 Police & Fire Pension costs
  - Cost to counties for housing juveniles in state facilities
  - State Fair & State Forestry

State added a new homestead deduction of 35% of residual AV but repealed HSRC and PTRC



# Impact of Property Tax Reform

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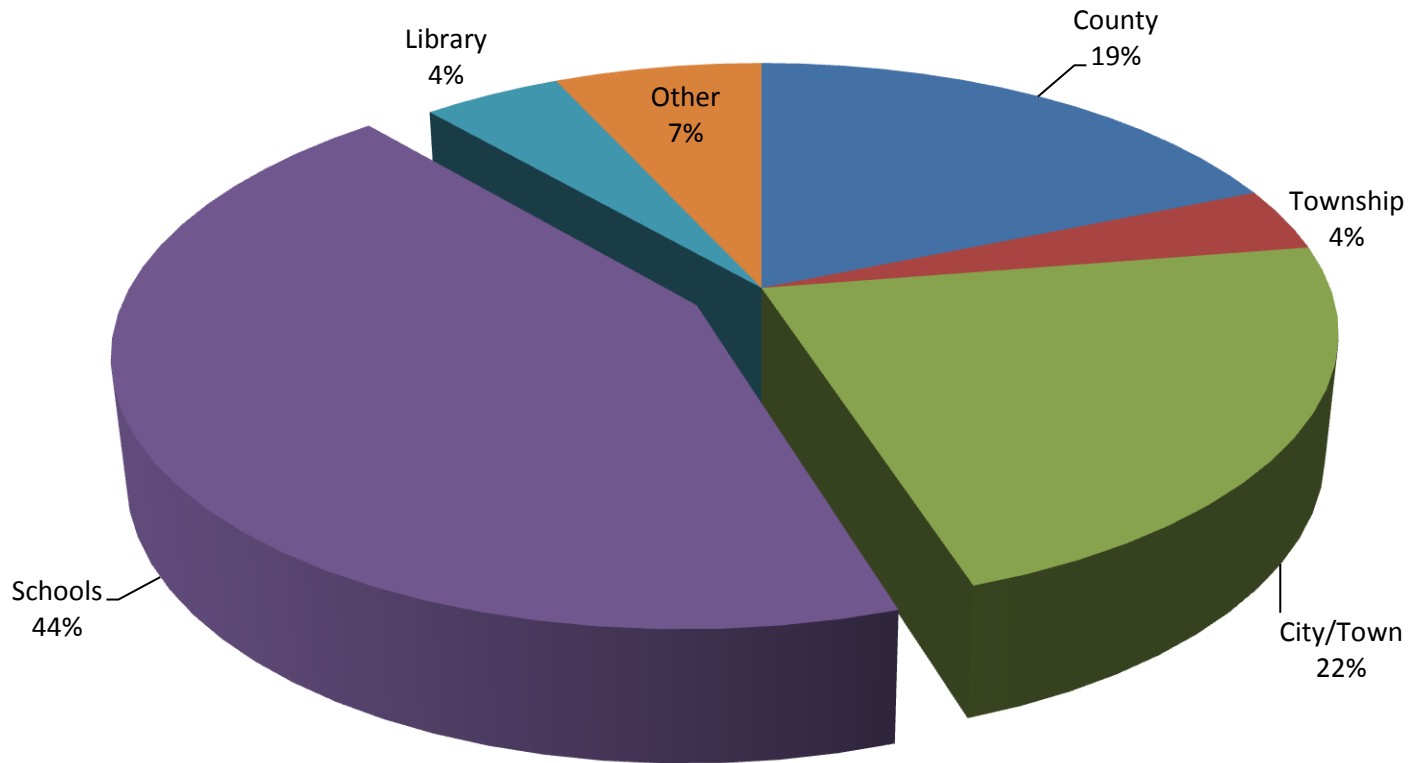
- Transferring those costs to the state moved a large portion of the property tax burden to the sales tax.
- Property tax levies to pay for those services were “volatile”.
- Transfer resulted in approximately 30% reduction in property tax levy state-wide.
- Reduced property tax burden means circuit breakers only affect around 1/3 of property taxpayers – mostly in larger urban areas.





# Where Property Taxes Go

(Based on 2010 Property Tax Rates)





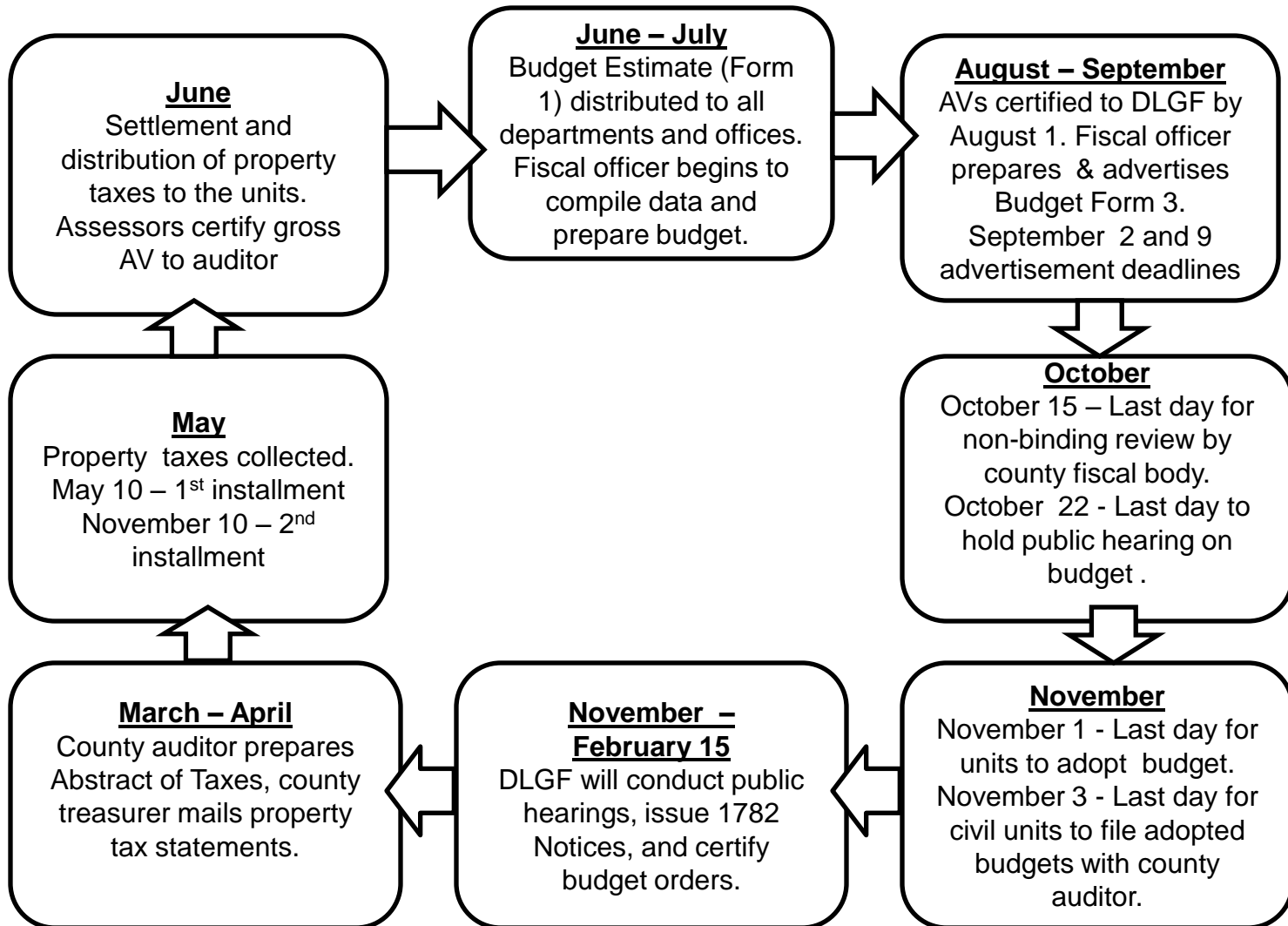
# Budget Process

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- DLGF issues budget forms and instructions in late spring.
- Local officials guide their budget development process by issuing guidelines and then having budgets submitted by departments.
- Budget is presented to fiscal body (council).
- Fiscal Body adopts budget by Nov. 1.
- Adopted budget submitted to DLGF for review and certification of tax rates.



# Budget Process Overview





# Preparing Your Budget (TIPS)

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- Always count the number of pay periods in the coming year.
- Budget for full staffing levels unless otherwise directed.
- Assume a slightly higher percent of employees subscribing to family health insurance plans.
- Work with your fiscal officer to develop budget guidelines to follow while developing the budget.
- Be conservative when estimating revenues.



# Budget Presentation

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- Ideal budget will satisfy criteria as:
  - Financial Plan
    - Details of budgeted expense and revenues.
  - Communications Device
    - The best presentations include a mission statement, a discussion of the agencies goals, and builds public support.
  - Policy Document
    - Clear statement of the general policies of the agency.
  - Operations Guide
    - General discussion of the duties and services of the agency.
    - May include performance measures.



# Budget Presentation

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- Samples
  - <http://www.gfoa.org/downloads/BdgtWinners07.pdf>
  - I recommend Tempe, AZ., Phoenix, AZ.
  - Source: Government Finance Officers Association



# Role of the DLGF

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- DLGF certifies budgets by issuing a budget order that includes budgets by unit, fund, approved property tax rates and levies.
  - DLGF determines amount of property taxes a unit may receive
  - Certifies the property tax rates that may be charged
- DLGF approves additional appropriations for funds that are property or income, or MVH tax supported.
- DLGF enforces the maximum property tax levy controls.
- DLGF authorizes creation of certain funds.



# 2013-2014 Budget Issues

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- Circuit breakers are 1%, 2%, and 3% (Impact varies considerably).
- Real estate values will impact property taxes and collections (Values are slowly recovering).
- Referendums are in addition to circuit breakers.
- Income tax distributions to units in 2013 projected at modestly higher levels-amounts were certified last fall.
- Excise taxes should begin rising with auto sales.
- Overall, revenues are slowly recovering.





# 2013-2014 Budget Issues

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- County councils or income tax councils now have until November 30 to adopt a new Local option Income Tax (LOIT).
- A Public Safety LOIT may be adopted in combination with either a property tax levy freeze LOIT (IC 6-3.5-1.1-24) or a property tax relief LOIT (IC 6-3.5-1.1-26).
- A Public Safety LOIT is distributed only to cities, towns, the county, and fire departments.
- Maximum Public Safety LOIT rate is 0.25%.



# Contracts

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- Contracts may be a large financial long-term commitment
  - FOP Contract
  - Leases
  - Service Contracts
  - Handicapped Parking Enforcement
  - Parking Tickets
  - Towing Vehicles
  - Intergovernmental agreements

*All contracts need to be appropriated*



# Key Points About Contracts

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- Always negotiate in good faith
- Keep taxpayers first
- Never negotiate in a panic
- Consider minimizing costs while maximizing revenues
- Consider benefits/risk of a long-term contract vs. a short-term
- Contracts must be subject to appropriation



# Reimbursements

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- Maximize any federal and state reimbursements available
  - Requires keeping excellent records
  - Keep record of all costs when dealing with disasters (tornados, floods)
- Remember you can be reimbursed for more than just overtime expense
  - Ex: Damaged equipment, communications towers, additional fringe benefit costs



# Challenges

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- Managing your budget with increasing costs
- Funding the increasing cost of health insurance and other benefits
- Property tax levies are “controlled” (i.e. limited)
- Reduced funding due to potential Circuit Breaker credits
- Financing rural and suburban public safety needs with a growing population and controlled property tax levies



# Roll of Other Officials in Budget Process

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- Clerk Treasurer or Controller (Prepares)
- Unit Executive (Mayor or Council President)
- City or Town Council (Approves)
- County Council (for budget review)
- County Auditor – (Certifies AV and distributes taxes to all units)
- County Treasurer (Bills and collects taxes)
- DLGF (Certifies budgets, rates, and levies)
- State Board of Accounts (Audit)



# Summary

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- Terms: Budget, AV's, Tax Rates, Levies
- Budgets are “legal” controls
- Property taxes are “controlled”
- Funds and fund structure
- Budget structure and process
- Budget amendments
- Circuit breakers
- How to proceed and present budget



# Contact the Department

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